

# THE BUSINESS CASE FOR SUSTAINABILITY

Produced by



December 2009

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SOLUTIONS FOR A SUSTAINABLE WORLD

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Produced by  
Strandberg Consulting

UPDATED DECEMBER 2009

The following is an “evergreen” document which Strandberg Consulting continues to update to reflect the most recent benefits and statistics which demonstrate the business case for sustainability.

### Introduction To Sustainability

Although many different terms are used, such as Corporate Social Responsibility, Corporate Responsibility, Responsible Entrepreneurship, and Corporate Citizenship, CSR or corporate sustainability essentially refers to the balanced integration of social and environmental considerations in business strategy and operations. It is about maintaining economic success and achieving commercial advantage by building reputation and gaining the trust of people that work with or live around the company. In other words, it means satisfying customers’ demands, whilst also managing the expectations of other people, such as employees, suppliers and the surrounding community.

### Sustainability On The Rise

According to the Conference Board of Canada, sustainability is the business issue of the 21<sup>st</sup> Century. Leading corporations, not only in Canada, but also around the world, are embracing this concept and its link to economic success and competitive advantage:

- According to a 2005 KPMG survey, 68% of Fortune 250 companies now publicly report on their social and environmental initiatives as well as their financial performance
- According to McKinsey and Company, more than 90% of chief executives are doing more now than they did five years ago to incorporate environmental, social, and governance issues into their companies’ strategies and operations (McKinsey and Co. 2007)
- According to PricewaterhouseCoopers' 6th annual Global CEO Survey (2003):
  - 79% of CEOs agreed that sustainability is vital to the profitability of any company, an increase from 69% the year before
  - 71% of CEOs said they would sacrifice short-term profitability in exchange for long-term shareholder value when implementing a sustainability program

Global drivers of sustainability include:

- Legislation e.g. on pollution and environmental issues
- Investors with the spread of CSR performance indices

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- Other stakeholders particularly NGOs
- Commercial issues of compliance and risk management
- The need to develop competitive advantage and brand reputation

### **Sustainability: A Smart Business Decision**

Sustainability can bring direct benefits to a business and secure its long-term competitiveness.

Increasingly, customers want a reliable supplier with a good reputation for quality products and services. Suppliers want to sell to a customer that will return for repeat purchases and will make payments in a timely manner. The company's community wants to be confident that the business operates in a socially and environmentally responsible way. And lastly, the company's employees want to work for a company of which they are proud, and that they know values their contribution. To remain competitive, companies need to be able to adapt to these new demands from the market and the society in which they operate.

Initially viewed as a series of costs, the business case for sustainability is becoming increasingly apparent. By embracing the long-term strategic and competitive advantages of sustainability, businesses of all sizes find that they can have a significant impact, and at the same time meet - and exceed - their business objectives.

- An 11-year study of corporations by Harvard University, which emphasized stakeholder management, found socially responsible and sustainable corporations had sales growth 4 times and employment growth 8 times that of "shareholder first" companies (KPMG, The Business Case for Sustainability 2001).
- Over a 5-year period Dow Jones Groups Sustainability Index (DJGSI) performed an average of 36.1% better than did the traditional Dow Jones Group Index (World Economic Forum, 2005). "The DJSI 2008 report, affirmed a "positive strategically significant correlation between corporate sustainability and financial performance", citing that a number of its indexes have outperformed their comparative benchmarks in relation to total returns since the launch of the respective indices. The report found that sustainability strategies had a significant impact on the cost of external financing, return on invested capital, sales growth, and the fade-rate of a firm's competitive advantage." (As reported in BITC: The Value of Corporate Governance, October 2008, p. 4)
- A report by investment bank Goldman Sachs found that companies that are considered leaders in environmental, social and governance (ESG) policies also lead the pack in stock performance - by an average of 25% (Goldman Sachs, 2007).
- Innovest Strategic Value Advisors conducted a study in March 2008 and found that their Global 100 (which represents 100 leaders from the MSCI World Index that demonstrate exceptional capacity to address their sector-specific environmental, social and governance risks and opportunities) outperformed the MSCI World Index by 7.2% (annualized). It also outperformed the Dow Jones Industrial Average by 7.5% and the Dow Jones Global Titans by 8.8%. (Corporate Knights Vol. 72, p. 9).
- An A.T. Kearny analysis revealed that during the current economic slowdown, companies that show a "true" commitment to sustainability appear to outperform their industry peers in the financial markets. In 16 of 18 industries examined, companies recognized as sustainability-focused outperformed their industry peers over both a three- and six-month period, and were well protected from value erosion. Stock prices of 99

- companies identified as sustainable outperformed industry averages by 15% for the six months from May to November 2008. (Sustainability companies are defined by inclusion in either the Dow Jones Sustainability Index or the Goldman Sachs SUSTAIN focus list.) This performance differential translates to an average \$650 million in market capitalization per company. (2009 AT Kearney Inc. “Green” Winners).
- According to Doug Miller, chair of GlobeScan Inc., “our latest research shows that customers are not acting like they did in other economic downturns. Rather than softening their activism, consumers are more demanding than ever that companies maximize their societal and ecological contribution. It seems clear that only the best corporate citizens will thrive in tomorrow’s marketplace”. (Quoted in HP Global Citizenship Report 2008).
  - According to Paul Herman in Sustainable Industries Sept. 2009 issue, “companies with strong management practices in sustainability, and who embed them deeply, tend to drive more quantifiable impact and results, according to HIP’s research of the S&P 500”, p. 51 Sept. 2009 issue.
  - Business in the Community (BITC) in the UK contracted MORI to conduct statistical analysis using the financial data for a group of 33 companies who have participated in the BITC CR Index each year 2002 – 2007 and are listed on the London Stock Exchange. The objective of the analysis was to look for a correlation between the extent to which these companies’ corporate responsibility performance (as measured by their Corporate Responsibility Index scores) and their financial performance may be linked. The performance of this group of 33 companies was compared to the FTSE All-Share and FTSE 350 groups. They found that companies consistently participating in the CR Index outperform the FTSE 350 on total shareholder return 2002 – 2007 by between 3.3% and 7.7% per year. They also found that higher levels of performance in the management and integration of environmental and social issues and associated governance factors, as measured in the CR Index, are associated with lower levels of stock price returns volatility. The research demonstrated the higher the company scored on the CR Index, and therefore the better the company manages its environmental and social impacts, the less volatile the stock price returns. (“The Value of Corporate Governance: The Positive Return of Responsible Business”, BITC, October 2008.)

### The Business Case Specifics

According to the World Business Council on Sustainable Development, business can benefit from pursuing sustainable development in two basic ways – by driving cost efficiencies and by generating top-line growth. The balance of this report is divided along these lines.

#### ***A. Driving Down Costs (i.e. return on capital including operational efficiency, workforce efficiency)***

- 1) **Cost Savings from Improved Operational Performance and Efficiencies**
  - Process optimization - reduced material inputs, energy efficiency, and waste minimization
    - Sustainability Performance Ratios - potential savings equivalent to 1 - 3% on revenue from reduced utility, materials and waste costs (Willard)
  - Improved product quality and reduced error rates
  - Expedited permitting and improved relations with regulators:
    - Companies that satisfy and exceed regulatory compliance can develop better

- relations with regulatory agencies leading to less red tape and scrutiny
- Enable bottom line costs savings through environmental operations and practices (e.g. water and energy efficiency, less raw materials needed)

**2) Costs Avoided by Minimizing Business Risks and Improving Safety (i.e. risk management, including regulatory risk, license to operate, supply chain/security of supply and reputational risk)**

- Corporate responsibility provides a means by which companies can better understand and manage risk
  - Establishing a comprehensive CR policy and strategy can offset these risks, spanning legal, financial, environmental and societal risks
- Avoids litigation, legal claims, and accident expenses
- Mitigate risks by complying with regulatory requirements, industry standards and NGO demands
- Social license to operate: facilitate uninterrupted operations and entry in new markets using local sustainability efforts and community dialogue to engage citizens and reduce local resistance
- Supply chain security: secure consistent, long-term and sustainable access to safe, high quality raw materials and products by engaging in community welfare and development
- Reputational risk: avoid negative publicity and boycotts by addressing sustainability issues

**3) Cost Savings from Improved Recruitment and Retention of Talented Employees**

- Reduced recruitment and training costs
  - A survey conducted for the Conference Board of Canada (2000) found that 71% of employees want to work for companies that commit to social and community concerns
  - 70% of employed Canadians would consider changing jobs if their employers did not operate in a socially responsible manner (Scotiabank 2007)
  - 83% of employees in G7 countries say company's positive CSR reputation increases their loyalty (GlobeScan 2006)
- Better able to attract the best and the brightest, especially amongst graduates
  - Study by The Aspen Institute entitled *Where Will They Lead?* (2007), found that:
    - MBA students are expressing more interest in finding work that offers the potential of making a contribution to society (26% of respondents in 2007 say this is an important factor in their job selection compared with 15% in 2002)
  - Stanford University study *Corporate Social Responsibility Reputation Effects on MBA Job Choice* (2003) found that:
    - MBA graduates would sacrifice an average of \$13,700 in salary to work for a socially responsible company
  - 40% of MBA grads rated CSR as an "extremely" or "very" important company reputation measure when job hunting (Hill & Knowlton Jan 2008)
  - Recent research suggests that three-fourths of workforce entrants in the US regard social responsibility and environmental commitment as important criteria in selecting employers (p. 10 "Why Sustainability is Now the Key Driver in Innovation", Harvard Business Review, September 2009.)

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- A survey by McKinsey, a global management consulting firm, shows high performers generate up to 67% more in revenues than average performers
- The career website Monster.com asked college students what they looked for in a prospective employer: a full 92 % wanted to work for a green company (p. 11 The Sustainable Enterprise Report Turning Awareness into Action). “In multiple surveys, up to two-thirds of MBAs are looking for employers who share their values.” (p. 12)

#### 4) Cost Savings and Income Produced through Improved Employee Morale and Productivity

- Higher long-term productivity levels from:
  - More motivated, engaged and inspired workforce
  - Better trained staff from the application of higher workplace and labor standards
  - 83% of employees in G7 countries say company’s positive CSR reputation increases their motivation (GLOBEScan 2006)
  - Sustainability Performance Ratio found:
    - 2% increase in employee productivity from improved company-wide teaming around common sustainability issues that transcend departmental boundaries
    - 2% increase in employee productivity from improved work environment (Willard)
- Decreased employee turnover (Staff retention issues can cause increased workload for remaining staff, increased operating costs, loss of business to competitors, fall in customer service standards, delays developing new products and services and difficulties introducing new working practices, according to Grant Thornton IBR 2008 as cited in “Recruitment and Retention: The Quest for the Right Talent”)
- Boosted employee satisfaction and performance leads to increased customer satisfaction
- A paper by Alex Admans of the Wharton School entitled “Does the Stock Market Fully Value Intangibles?” found a positive relationship between employee satisfaction and equity prices.  
(<http://www.mercer.com/referencecontent.htm?idContent=1351955>)
- Fortune magazine “Best Places to Work For” companies compiled by the Great Places to Work Institute have been studied by Wharton professor Alex Edmans who examined the shareholder value performance of these employee-friendly firms, adjusting for annual changes. He found that firms with higher employee satisfaction outperformed the benchmark – because they were under-valued by traditional profit-only investors. Mutual fund Parnassus has a Workplace Fund which draws on this approach, and has tended to outperform its benchmark significantly (Paul Herman in Sustainable Industries, September, 2009, p. 51).

#### ***B. Generating Growth (including new markets, new products, new customers/market share, innovation, reputation/differentiation, reputation/price premium)***

- 1) Increased Revenue Through Learning and Innovation
  - Sustainability helps to identify new markets and price premium opportunities – enhances ability to gain access to new markets and market share through

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exposure from sustainability approach

- Globescan's 2003 CSR Monitor found:
  - 8 in 10 Canadians agree they would be willing to pay more for a product if produced in a socially and environmentally responsible manner
- New products through the application of new technologies and improved understanding of consumer needs – e.g. Interface; create products to meet unmet social needs and increase differentiation
- Stakeholder engagement is a catalyst for corporate innovation
- Opportunity to develop cutting edge technology and innovative products and services for unmet social or environmental needs that could translate to business uses, patents, proprietary knowledge, etc.
- Nutritionists at global beverage and food company PepsiCo claim 30% of its \$43 B annual revenue comes from the sale of healthy products that are “good” for customer's health and nutrition. GE claims 80 of its “ecomagination” products generate \$17 billion in revenue, or almost 10 percent of the firm's top-line. Tellab's eco-efficient equipment, which consumes 80 percent less energy for telecom customers such as Verizon, totals at least a third of its \$2 billion in sales (Paul Herman, Sustainable Industries, September 2009, p. 51).

### 2) Enhanced Recognition and Reputation

- Sustainability is an intangible asset that has the potential to enhance corporate reputation and differentiate a brand
  - Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency
  - Reputation for integrity and respect can build customer loyalty based on distinct values differentiating the brand from the competition
  - The 2002 CSR Monitor by Globescan found 89% of Canadians have more respect for a company when the CEO speaks in favor of CSR
  - A survey by Environics International found 60% of respondents identified factors related to corporate responsibility, such as labor practices, business ethics, and environmental responsibility as helping shape their view of particular companies.
  - More than two-thirds (68%) of Canadians take a company's CSR performance into consideration when they make everyday purchases (Scotiabank 2007)
  - Edelman 2007 Trust Barometer of 3,100 global respondents reveals the following: when you think of the major global companies that you trust, which are the most important activities for a socially responsible company to engage in?: 58% fair treatment of employees; 54% ensuring that products meet accepted social/environmental standards; 45% communication of both positive and negative performance; 23% CEO commitment to responsible business practices; 41% social or environmental reporting; 21% philanthropic donations or activities; 19% partnerships with NGOs or nonprofits; 15% media coverage of responsible business practices.
  - 70 – 80 % of public companies' valuation in American and Western stock markets depends on expectations of the company's cash flow beyond the next three years. Companies' reputations strongly shape those expectations and corporate citizenship is the top driver of reputation, according to the Reputations Institute's 2007 global survey (p. 61 “Cultivating the Green Consumer”, Stanford Social Innovation Review, Fall 2008)

### 3) Improved Customer Loyalty

- Sustainability provides an opportunity to develop customers' willingness to pay increase or premium
- Deeper understanding of customer expectations leads to more closely targeted solutions, products, and services
- Body Shop survey conducted in 2008 finds that in Canada 77% of consumers are making more purchasing choices based on the corporate behaviour and ethics of a company than they were five years ago and 40% of those polled say that they make those decisions on a weekly basis. This, in spite of a tough economic climate.
- Globescan's 2003 CSR Monitor survey results:
  - Within a global context, Canada is the third most demanding market after Australia and Great Britain for corporate values to extend beyond financial gain and are the most likely to punish those companies they consider to be socially irresponsible
  - 83% of Canadian respondents believed that the role of large companies in society should go beyond the traditional economic function
- 67% of Canadians say would switch to "green" companies (Environics, Feb 2007)
- 70 – 80% of consumers say they are switching to "green" companies; 20% actually did in 2006 (Sustainable brand study by egg, March 2007)
- Consumerology Report, July 2008, by Bensimon Byrne, revealed:
  - three quarters of Canadians say they consider the environmental impact when they make a purchase decision – only 20% of Canadians say they rarely or never do
  - 40% of Canadians are very likely to make purchasing decisions to aid the environment even if it costs more
- In Canada, 34% of respondent agree to the statement "I would be more likely to purchase products or services from a company with a good reputation for environmental responsibility"; 42% in US. (Tandberg, Global retail consumers segmented by willingness to pay for products with environmental and social benefits, 2007).
- Cone Communications' 2007 Cause Evolution Survey found:
  - 79% of Americans take corporate citizenship into account when deciding whether to buy a particular company's product
  - 91% of U.S. consumers who learn about a firm's negative corporate citizenship practices would consider switching to another company, 85% would pass the information to family and friends, 83% would refuse to invest in that company, 80% would refuse to work at that company and 76% would boycott that company's products
- Cone Communications' 2009 Consumer Environmental Survey found:
  - Despite the dire state of the economy, 34% of American consumers indicate they are *more likely* to buy environmentally responsible products today, and another 44% indicate their environmental shopping habits *have not changed* as a result of the economy. Fewer than one-in-10 (8%) say they are *less likely* to buy.
  - 35% of Americans have higher expectations for companies to make and sell environmentally responsible products and services during the economic downturn and 70% of Americans indicate that they are paying attention to what companies are doing with regard to the environment today, even if they

cannot buy until the future.

- Four out of five people say they are still buying green products and services today – which sometimes cost more – even in the midst of a US recession. Source: Reuters as cited in Eco-Bounty: from Eco-frugal to eco-metering, future profits will be green. [www.trendwatching.com](http://www.trendwatching.com)
- According to a 2008 Gallup environmental poll, 83% of respondents said they had changed their shopping and living habits over the last five years to help protect the environment (Eileen P. Gunn, “Is your Company Really Eco-Conscious?”, US News and World Report, Oct. 9, 2008).
- McKinsey & Company global survey of 7,751 consumers in 8 major economies showed that 87% are concerned about the environmental and social impacts of the products they buy (p. 56 “Cultivating the Green Consumer”, Stanford Social Innovation Review, Fall, 2008)
- 33% of consumers say they are willing to pay a premium for green products and another 54% care about the environment and want to help tackle climate change. (p. 61 “Cultivating the Green Consumer”, Stanford Social Innovation Review, Fall, 2008)
- Edelman Trust Barometer 2007, 3100 Global Respondents: have you ever done this in relation to a company you do not trust:
  - 81% refused to buy their products or use their services
  - 74% criticized them to people you know
  - 70% refused to invest in them
  - 50% investigated more about their activities
  - 50% refused to work for them
  - 47% supported legislation controlling or limiting their activities
  - 45% ignored their attempts to communicate with you
  - 40% shared your opinion and experiences on the web
  - 36% written a letter or email complaining to the media, a politician or an official third party
  - 23% actively demonstrated or protested against them (p. 3 “Who’s Listening? Who’s Leading? What Matters Most?, Edelman et al)
- According to a Cone and AMP Insight Study in USA Today, the younger generation consists of the most socially conscious consumers<sup>1</sup>:
  - 69% of 13 – 25 year olds consider a company’s social and environmental commitment when deciding where to shop
  - 83% will trust a company more if it is socially and environmentally responsible

#### 4) Improved Access to Capital

- Improved reputation with investors, bond agencies and banks
- Enhanced credit worthiness, lower cost of capital due to greater investor confidence in company’s ability to manage change
- Small but growing trend in the investment community to use environmental and social performance factors to determine risks and liabilities, and evaluate a company’s suitability for investment:
  - According to the Social Investment Organization, \$609 billion of Canadian financial assets (20% of all assets under management in Canada) were invested in socially responsible investing as of 2008, up from \$503 billion in

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<sup>1</sup> Cone and AMP Insight Study, USA Today article, 10/24/06

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2006, a 20% increase in 2 years.

- According to Innovest Strategic Advisors, a company's environmental and social performance is an increasingly potent proxy and leading indicator for three drivers critical to future profitability potential: corporate agility or adaptability; durability of a firm's competitive advantage; and the quality of its strategic management.
- A 2003 Environics poll conducted for Environment Canada found 9 out of 10 Canadian shareholders wanted fund managers to take environmental and social performance into account when valuing companies.
- Socially responsible investment funds now attract about one dollar out of every nine invested, according to Infinity Wealth Management (Jerry R. Citarella, "Socially Responsible Investing", The Magazine of Santa Clarita.)

### 5) Improved Supply Chain Management

- Improved ability to attract and build effective and efficient supply chain relationships. A firm is vulnerable to the weakest link in its supply chain
- Like-minded companies can form profitable long-term business relationships by improving standards, and thereby reducing risks
- See "A Guide to the Business Case and Benefits of Sustainable Purchasing" at [www.corostrandberg.com](http://www.corostrandberg.com) for a full analysis of the benefits.

### 6) Enhanced ability to strategically plan for the longer term

- Better anticipate and understand trends in society to proactively plan for the longer term as a result of new regulations, heightened societal expectations and improved scientific knowledge
- First mover advantage by anticipating the impacts of social pressures
- Enhanced ability to meet changing, broadening stakeholder expectations